S
371.206
L72SD
2010

A Report to the Montana Legislature

Financial-Compliance Audit

# *Montana School for the Deaf and Blind*

## *For the Two Fiscal Years Ended June 30, 2010*

September 2010

Legislative Audit Division

*10-22A*

Montana State Library
3 0864 1006 0590 9

**Legislative Audit Committee**

**Representatives**
Dee Brown, Vice Chair
Betsy Hands
Scott Mendenhall
Carolyn Pease-Lopez
Wayne Stahl
Bill Wilson

**Senators**
Mitch Tropila, Chair
Greg Barkus
John Brenden
Taylor Brown
Mike Cooney
Cliff Larsen

**Audit Staff**

**Financial-Compliance**
David Brammer
Anthony Cacace
Jeane Carstensen-Garrett
Vickie Rauser

Fraud Hotline
Help eliminate fraud, waste, and abuse in state government.
Call the Fraud Hotline at:

(Statewide)
1-800-222-4446
(in Helena)
444-4446

## Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Direct comments or inquiries to:
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705
(406) 444-3122
Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

September 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and Blind (school) for the two fiscal years ended June 30, 2010. This report contains three recommendations related to foundation donations, unrecorded financial activity, and medicaid reimbursements. The school's written response to the audit recommendation is included at the end of the audit report.

We thank the Superintendent and the school staff for their cooperation and assistance during the audit.

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Digitized by the Internet Archive
in 2012 with funding from
Montana State Library

http://archive.org/details/montanaschoolfor2010mont

# TABLE OF CONTENTS

Figures and Tables ..... ii
Appointed and Administrative Officials ..... iii
Report Summary ..... S-1

**CHAPTER I – INTRODUCTION ..... 1**
Introduction ..... 1
Background ..... 2
Prior Audit Recommendations ..... 3

**CHAPTER II – FINDINGS AND RECOMMENDATIONS ..... 5**
Foundation Donations ..... 5
Misclassification of Revenue ..... 5
Unrecorded Financial Activity ..... 5
Failure to Follow State Purchasing Laws and Rules ..... 6
Unrecorded Financial Activity ..... 6
Medicaid Reimbursements ..... 7

**CHAPTER III – DISCLOSURE ISSUE ..... 9**
Segregation of Duties Between Foundation and School Staff ..... 9

**INDEPENDENT AUDITOR'S REPORT AND DEPARTMENT FINANCIAL SCHEDULES**
Independent Auditor's Report ..... A-1
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2010 ..... A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2009 ..... A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2010 ..... A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2009 ..... A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2010 ..... A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2009 ..... A-8
Notes to the Financial Schedules ..... A-9

**SCHOOL RESPONSE**
Montana School for the Deaf and Blind ..... B-1

# Figures and Tables

## Tables

Table 1 Summary of Internal Control Deficiencies ..... 1

# APPOINTED AND ADMINISTRATIVE OFFICIALS

**Montana School for the Deaf and Blind**

Steve Gettel, Superintendent

Kim Schwabe, Principal

Bill Sykes, Business Manager

**Board of Public Education**

Brian Schweitzer, Governor*

Denise Juneau, Superintendent of Public Instruction*

Sheila M. Stearns, Commissioner of Higher Education*

| | | Terms Expires |
|---|---|---|
| Patty Myers, Chairperson | Great Falls | 2014 |
| Sharon Carroll, Vice Chairperson | Ekalaka | 2012 |
| John Edwards | Billings | 2016 |
| Gisele Forrest | Missoula | 2013 |
| Cal Gilbert | Great Falls | 2011 |
| Bernard Olson | Lakeside | 2015 |
| Erin Williams | Missoula | 2017 |
| Tim Seery, Student Representative | Great Falls | 2011 |

*ex officio members

Steve Meloy, Executive Secretary

For additional information concerning the Montana School for the Deaf and Blind, contact:

Steve Gettel, Superintendent
Montana School for the Deaf and Blind
3911 Central Avenue
Great Falls, MT 59405-1697
Office: (406) 771-6000

e-mail: sgettel@msdb.mt.gov

MONTANA LEGISLATIVE AUDIT DIVISION

# FINANCIAL COMPLIANCE AUDIT

# Montana School for the Deaf and Blind

## For the Two Fiscal Years ended June 30, 2010

SEPTEMBER 2010 10-22A REPORT SUMMARY

The Montana School for the Deaf and Blind provides services to sensory impaired infants, toddlers, and school aged children through their campus facility in Great Falls and their outreach program that works with individuals in school districts across the state. The Great Falls campus consists of educational classrooms, recreational facilities, and cottages for the resident students. In addition to state funding, the school receives support from a private, not for profit foundation.

### Context

At the end of fiscal year 2009-10, the school was providing instruction for 49 hearing and visually impaired students through the Great Falls campus, as well as providing residential living and health services for 18 of those students. Through the school's outreach program, they were also providing consultation and technical assistance to the families, teachers, and administrators of more than 450 sensory impaired infants, toddlers, and school aged children across the state. The school is comprised of four programs with a total of 88 FTE. The majority of these employees worked in the Student Services and Education programs.

The school is primarily funded with both General Fund appropriations and State Special Revenue funding sources such as revenue from the School Trust Lands. For fiscal year 2009-10, the school had approximately $6.5 million of budgeted expenditures. In fiscal years 2008-09 and 2009-10, the school's foundation provided an additional $265,779 and $149,898 of funding in support of student activities, supplies and capital projects.

### Results

Our audit includes three audit recommendations and one disclosure issue. The major finding is related to foundation donations in support of two capital projects for the school. This finding addresses the missclassification of revenue, which had been recorded as capital contributions instead of donations, unrecorded financial activity in that not all of the funding for the projects had been recorded on the school's financial records, and failure to follow state purchasing laws and rules pertaining to these projects. We believe the errors were in part due to the administrative function performed for the foundation by an MSDB employee. We have reported this relationship between the school and the foundation as a disclosure issue.

One other recommendation of particular interest relates to an agreement with an organization external to state government to pay for internet services for the school. The agreement for this assistance is administered through the Department of Administration (DofA) and previous to fiscal year 2009-10, the financial activity for this assistance had been recorded on the financial records for DofA and not the school's accounting records as required by state accounting policy. The school has no controls in place to ensure the terms of the agreement were met. In fiscal years 2008-09 and 2009-10, DofA had failed to process the paperwork for reimbursement for the internet fees from this outside organization in the amount of $17,640.

| Recommendation Concurrence | |
|---|---|
| Concur | 1 |
| Partially Concur | 0 |
| Do Not Concur | 0 |

Source: Agency audit response included in final report.

For a complete copy of the report or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the website at http://leg.mt.gov/audit.
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

# Chapter I – Introduction

## Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and Blind (school) for the two fiscal years ended June 30, 2010. The objectives of our audit were to:

1. Determine the school's compliance with selected state laws and regulations.
2. Obtain an understanding of the school's internal controls to the extent necessary to support our audit of the financial schedules and if necessary, make recommendations for improvements in the school's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the school's financial schedules are fairly presented for each of the two fiscal years ended June 30, 2010.

In accordance with §5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Areas of concern regarding compliance with laws and regulations and state accounting policy deemed not to have significant effect on the successful operations of the school are not specifically included in the report, but have been discussed with management.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #2 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency affects management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below summarizes the status of significant deficiencies and material weaknesses we identified during our audit.

Table 1
**Summary of Internal Control Deficiencies**

| Subject | Significant Deficiency | Material Weakness | Page |
|---|---|---|---|
| Payment of communication services provided by an entity external to state government | Yes | No | 6 |

## Background

The Montana School for the Deaf and Blind (school) is a state supported special purpose school and an integral part of the Montana public education system. In accordance with its statutory mandates, the school serves two primary functions. First, by the use of specialized instruction and training, the school provides an education for deaf/hard of hearing and visually impaired children that is commensurate with the education provided to nondisabled children in local school districts. This education enables children being served by the school to become independent and self-sustaining citizens.

Second, the school serves as a consultative resource for parents of deaf/hard of hearing and visually impaired children not yet enrolled in an educational program and for school districts where deaf/hard of hearing and visually impaired children are receiving educational services. Upon request, the school outreach staff provide consultation and technical assistance to the families, teachers, and administrators of more than 450 sensory impaired infants, toddlers, and school aged children across the state.

At the end of the fiscal year 2009-10, the school was providing services to the following constituents:

- Educational placement for 18 visually impaired and 33 deaf/hard of hearing students.
- Residential living and health services for 18 students who attend the school.
- Educational evaluations for 21 students referred by their local school districts with placement recommended at MSDB for 12 of these students and audiological assessments for 214 students and preschoolers.
- Consultation by MSDB staff for behavior or transition plans of 41 students who attend school in local districts.
- Consultation services to local preschool/Headstart, local districts, and parents through the school's Outreach Program to 434 students in 90 school districts and communities across the state.
- Home-based early intervention services through the school's Family Advisor Program for 41 deaf, hard of hearing, or visually impaired infants and toddlers across the state.
- Functional Vision or Orientation Mobility evaluations for 49 students in local districts across the state.
- Processing referrals from the Universal Newborn Hearing Screening and Children's Special Health Services Programs for 68 infants and toddlers with a suspected hearing loss.
- Professional development activities for 1,682 parents, school, and medical professionals across the state.

- Specialized educational equipment loaned to 17 visually impaired children in local school districts across the state.
- Family Learning Weekend and Summer Camp activities for 348 parents, siblings, and educators.

At the end of fiscal year 2009-10, the school was comprised of four programs with the following FTE: Administration, 5; General Services, 4; Student Services, 29.74, and Education, 49.87.

## Prior Audit Recommendations

The prior financial-compliance audit of the school for the two fiscal years ended June 30, 2008, contained one recommendation. The school implemented this recommendation.

# Chapter II – Findings and Recommendations

## Foundation Donations

**Errors were made in recording donations from the school's foundation and in purchasing related to those donations.**

In fiscal year 2008-09, the school received funding from the school's foundation in support of the purchase of bleachers and the remodel project of one of the student cottages. We identified three issues related to the funding received from the foundation related to:

- Misclassification of revenue
- Unrecorded financial activity
- Failure to follow state purchasing laws and regulations

### Misclassification of Revenue

In fiscal year 2008-09, the foundation gave to the school $79,498 for the purchase of bleachers and the remodel project of one of the cottages. The school recorded $66,856 of this funding as capital contribution revenue. According to state accounting policy, the capital contribution classification would be used when an asset was transferred or donated to the school. The contracts and invoices related to these purchases were in the name of the School for the Deaf and Blind and authorized for payment by a school employee. The school officials indicated that since the foundation was paying for the projects, recording the transactions as capital contributions was appropriate. However, the substance of the transactions with the vendors indicated that these projects were managed by the school and the payment made by the foundation for these projects should have been recorded as donation revenue. As a result, fiscal year 2008-09 capital contribution and donation revenue are misstated by $66,856.

### Unrecorded Financial Activity

The school's practice, as permitted by the authority given the Board of Public Education, which is the governing body over the school, in §20-8-111, MCA, is to transfer donations it receives directly to it to its foundation, by recording an expenditure. Once the school makes these transfers, it gives up ownership of the donations, which then become assets of the foundation. Of the $79,498 of funding received by the school from the foundation to fund the bleacher and remodel projects, there was $12,642 that had been originally donated directly to the school and was then transferred to the foundation. The school failed to record this amount as revenue when it was donated back to the school from the foundation. Section 17-1-102(4), MCA, requires all state agencies and institutions to record financial activity in accordance with generally

accepted accounting principles. Management believed it would be inappropriate to record this amount as revenue a second time. However, once the school has transferred donations to the foundation, any future receipt of a like amount from the foundation cannot be classified as the original donation because the contribution is received from the foundation from commingled funds. As a result, donation revenue was understated by $12,642.

## Failure to Follow State Purchasing Laws and Rules

According to state law and purchasing rules, the school has entered into a Procurement Delegation Agreement with the Department of Administration, Procurement Bureau. This agreement requires the school to forward any purchase with a total contract value above $25,000 to the State Procurement Bureau for processing. The cost of the bleachers and remodel projects funded by the foundation were $37,200 and $45,998, respectively. Both projects exceeded the school's purchasing authority. The school believed since the projects were being funded by the foundation, which is not obligated to follow state procurement policy, these policies did not apply. As discussed previously, the contracts for these purchases were in the name of the school and, as such, they are subject to state law and rules. Failure to use the State Procurement Bureau for these purchases resulted in noncompliance with state law and there were potential savings lost by not using the formal bid process used for state purchases of this size.

***RECOMMENDATION #1***

*We recommend the school:*

A. *Account for donations from the foundation and related expenditures in accordance with state law and accounting policy.*

B. *Comply with the purchasing requirements defined in the Procurement Delegation Agreement with the Department of Administration.*

# Unrecorded Financial Activity

**The school did not properly account for assistance received from an entity external to state government.**

Universal Service Administrative Company (USAC) administers a program that assists schools and libraries with internet access fees. In fiscal years 2008-09 and 2009-10, the school entered into an agreement with USAC to receive $17,640 of assistance for the two years. The payments from USAC are collected by the Department of Administration,

Information Technology Services Division (ITSD), as it administers the contract with the internet service provider for the school. In the past, ITSD has recorded money collected from USAC as revenue for the Department of Administration and has reduced the internet fees billed to the school. As a result, there is no revenue or expenditure recorded on the school's accounting records for this activity. State accounting policy requires recurring expenditures and revenue paid by an outside source to be recorded.

In fiscal years 2008-09 and 2009-10, ITSD failed to process the paperwork requesting payment from USAC, resulting in no money being collected for those two years and only reduced the internet fee billings for the school in fiscal year 2009-10 once the error was discovered. The school's internal controls did not recognize its internet fee billing had not been reduced. Because the internet fees charged by ITSD are bundled with other communication services provided, the school did not know it had not been credited for the money normally collected from USAC.

The school should have procedures in place to verify with ITSD, the terms of the agreement have been met. Management indicated they were not aware the USAC revenue should be recorded on their financial records as the payments are made directly to ITSD. Because the school has to apply for USAC assistance, the assistance and subsequent expenditure should be recorded on the school's accounting records to accurately reflect the school's costs and funding resources.

***RECOMMENDATION #2***

*We recommend the school implement controls over the Universal Service Administrative Company contract to ensure terms are met and the appropriate accounting transactions are recorded.*

## Medicaid Reimbursements

**The Montana School for the Deaf and Blind inappropriately records payments from the Department of Public Health and Human Services for services provided to Medicaid-eligible students in the Federal Special Revenue Fund.**

The Montana School for the Deaf and Blind inappropriately records payments from the Department of Public Health and Human Resources (DPHHS) for services provided to Medicaid-eligible students in the Federal Special Revenue Fund.

The school provides services to Medicaid-eligible students and bills DPHHS for those services. The school records the payments received from DPHHS in a Federal Special Revenue Fund. The school received $21,335 in fiscal year 2008-09 and $18,142 in fiscal year 2009-10 for these services. Section 17-2-102(1)(b)(ii), MCA, defines the state's fund structure; the Federal Special Revenue Fund consists of money deposited in the treasury from federal sources.

School personnel stated they believed since the services were related to Medicaid reimbursements, recording the activity in the Federal Special Revenue Fund was appropriate. However, because the school receives the Medicaid reimbursements as a fee for services from DPHHS under the Medicaid Program and not from the federal government; the reimbursements do not meet the criteria for the Federal Special Revenue Fund. As a result, revenue and their related expenditures are overstated in the Federal Special Revenue Fund by $21,335 and $18,142 for fiscal years 2008-09 and 2009-10, respectively.

***RECOMMENDATION #3***

*We recommend the school record Medicaid reimbursements on the accounting records in compliance with the state statute.*

# Chapter III – Disclosure Issue

## Segregation of Duties Between Foundation and School Staff

An employee of the Montana School for the Deaf and Blind also performs administrative duties for the school's foundation.

The school's foundation, which is a nonprofit organization outside of state government, is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

We question whether this business arrangement where the person approving foundation expenses is also a school employee is appropriate. It creates the appearance of a conflict of interest in these related party transactions, and creates questionable internal controls over school financial activities. We believe this business arrangement contributed to the findings reported earlier in this report related to the foundation, which might have been avoided had employee for the school not been performing overlapping duties for both organizations.

We are not making a recommendation at this time, but present this issue for disclosure purposes only.

# Independent Auditor's Report and School Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

# Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana School for the Deaf and Blind (school) for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the school's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the school's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Montana School for the Deaf and Blind for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 12, 2010

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Agency Fund |
|---|---|---|---|---|
| FUND BALANCE: July 1, 2009 | $ (557,928) | $ 213,455 | $ 91 | $ 0 |
| PROPERTY HELD IN TRUST: July 1, 2009 | | | | $ 20,206 |
| ADDITIONS | | | | |
| Budgeted Revenues & Transfers-In | 27,856 | 382,378 | 165,552 | |
| Nonbudgeted Revenues & Transfers-In | 1,121 | 14,903 | | |
| Prior Year Revenues & Transfers-In Adjustments | | 8,232 | | |
| Direct Entries to Fund Balance | 6,140,968 | (262) | | |
| Additions to Property Held in Trust | | | | 65,767 |
| Total Additions | 6,169,945 | 405,251 | 165,552 | 65,767 |
| REDUCTIONS | | | | |
| Budgeted Expenditures & Transfers-Out | 5,948,500 | 402,421 | 165,551 | |
| Nonbudgeted Expenditures & Transfers-Out | | 70,311 | | |
| Prior Year Expenditures & Transfers-Out Adjustments | (8,154) | 8,232 | | |
| Reductions in Property Held in Trust | | | | 61,621 |
| Total Reductions | 5,940,346 | 480,964 | 165,551 | 61,621 |
| FUND BALANCE: June 30, 2010 | $ (328,329) | $ 137,742 | $ 92 | $ 0 |
| PROPERTY HELD IN TRUST: June 30, 2010 | | | | $ 24,352 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Agency Fund |
|---|---|---|---|---|
| FUND BALANCE: July 1, 2008 | $ (565,617) | $ 169,646 | $ 91 | $ 0 |
| PROPERTY HELD IN TRUST: July 1, 2008 | | | | $ 18,327 |
| ADDITIONS | | | | |
| Budgeted Revenues & Transfers-In | 21,870 | 470,460 | 162,425 | |
| Nonbudgeted Revenues & Transfers-In | 1,060 | | | |
| Direct Entries to Fund Balance | 5,974,896 | | | |
| Additions to Property Held in Trust | | | | 146,268 |
| Total Additions | 5,997,826 | 470,460 | 162,425 | 146,268 |
| REDUCTIONS | | | | |
| Budgeted Expenditures & Transfers-Out | 5,993,802 | 331,773 | 162,425 | |
| Nonbudgeted Expenditures & Transfers-Out | (3,287) | 94,878 | | |
| Prior Year Expenditures & Transfers-Out Adjustments | (378) | | | |
| Reductions in Property Held in Trust | | | | 144,389 |
| Total Reductions | 5,990,137 | 426,651 | 162,425 | 144,389 |
| FUND BALANCE: June 30, 2009 | $ (557,928) | $ 213,455 | $ 91 | $ 0 |
| PROPERTY HELD IN TRUST: June 30, 2009 | | | | $ 20,206 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Total |
|---|---|---|---|---|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | |
| Taxes | $ 1,121 | | | $ 1,121 |
| Charges for Services | 8,291 | | $ 18,142 | 26,433 |
| Rentals, Leases and Royalties | | $ 3,738 | | 3,738 |
| Grants, Contracts, and Donations | | 136,802 | | 136,802 |
| Transfers-in | | 264,973 | 75,000 | 339,973 |
| Federal Indirect Cost Recoveries | | | 8,292 | 8,292 |
| Miscellaneous | 19,565 | | | 19,565 |
| Federal | | | 64,118 | 64,118 |
| Total Revenues & Transfers-In | 28,977 | 405,513 | 165,552 | 600,042 |
| Less: Nonbudgeted Revenues & Transfers-In | 1,121 | 14,903 | | 16,024 |
| Prior Year Revenues & Transfers-In Adjustments | | 8,232 | | 8,232 |
| Actual Budgeted Revenues & Transfers-In | 27,856 | 382,378 | 165,552 | 575,786 |
| Estimated Revenues & Transfers-In | 15,100 | 517,975 | 248,522 | 781,597 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ 12,756 | $ (135,597) | $ (82,970) | $ (205,811) |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | |
| Licenses and Permits | | $ (288) | | $ (288) |
| Charges for Services | $ 691 | (83,098) | $ 3,396 | (79,011) |
| Rentals, Leases and Royalties | | 2,291 | | 2,291 |
| Grants, Contracts, and Donations | | (23,043) | | (23,043) |
| Transfers-in | | (31,459) | | (31,459) |
| Federal Indirect Cost Recoveries | | | 692 | 692 |
| Miscellaneous | 12,065 | | | 12,065 |
| Federal | | | (87,058) | (87,058) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ 12,756 | $ (135,597) | $ (82,970) | $ (205,811) |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Total |
|---|---|---|---|---|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | |
| Licenses and Permits | | $ 289 | | $ 289 |
| Taxes | $ 1,060 | | | 1,060 |
| Charges for Services | 7,002 | | $ 21,335 | 28,337 |
| Capital Contributions | | 66,856 | | 66,856 |
| Rentals, Leases and Royalties | | 2,246 | | 2,246 |
| Grants, Contracts, and Donations | | 28,023 | | 28,023 |
| Transfers-in | | 373,046 | | 373,046 |
| Federal Indirect Cost Recoveries | | | 7,003 | 7,003 |
| Miscellaneous | 14,868 | | | 14,868 |
| Federal | | | 134,087 | 134,087 |
| Total Revenues & Transfers-In | 22,930 | 470,460 | 162,425 | 655,815 |
| Less: Nonbudgeted Revenues & Transfers-In | 1,060 | | | 1,060 |
| Prior Year Revenues & Transfers-In Adjustments | | | | 0 |
| Actual Budgeted Revenues & Transfers-In | 21,870 | 470,460 | 162,425 | 654,755 |
| Estimated Revenues & Transfers-In | 13,832 | 431,724 | 160,037 | 605,593 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ 8,038 | $ 38,736 | $ 2,388 | $ 49,162 |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | |
| Licenses and Permits | | $ (332) | | $ (332) |
| Charges for Services | $ 170 | (75,854) | $ (371) | (76,055) |
| Capital Contributions | | (1) | | (1) |
| Rentals, Leases and Royalties | | 926 | | 926 |
| Grants, Contracts, and Donations | | 28,023 | | 28,023 |
| Transfers-in | | 85,974 | | 85,974 |
| Federal Indirect Cost Recoveries | | | 171 | 171 |
| Miscellaneous | 7,868 | | | 7,868 |
| Federal | | | 2,588 | 2,588 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ 8,038 | $ 38,736 | $ 2,388 | $ 49,162 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | ADMINISTRATION PROGRAM | EDUCATION | GENERAL SERVICES | STUDENT SERVICES | TOTAL |
|---|---|---|---|---|---|
| Personal Services | | | | | |
| Salaries | $ 260,910 | $ 2,794,403 | $ 107,744 | $ 784,938 | $ 3,947,995 |
| Hourly Wages | | 228 | | | 228 |
| Employee Benefits | 80,661 | 1,057,552 | 49,694 | 399,146 | 1,587,053 |
| Total | 341,571 | 3,852,183 | 157,438 | 1,184,084 | 5,535,276 |
| Operating Expenses | | | | | |
| Other Services | 67,833 | 23,137 | 57,003 | 5,317 | 153,290 |
| Supplies & Materials | 4,542 | 99,050 | 30,906 | 58,202 | 192,700 |
| Communications | 60,567 | 50,871 | 2,245 | 2,273 | 115,956 |
| Travel | 532 | 51,146 | | 51,603 | 103,281 |
| Rent | 835 | 108,467 | 2,396 | 6,435 | 118,133 |
| Utilities | | | 157,148 | | 157,148 |
| Repair & Maintenance | | | 94,183 | | 94,183 |
| Other Expenses | 5,908 | 86,106 | 9,487 | 240 | 101,741 |
| Total | 140,217 | 418,777 | 353,368 | 124,070 | 1,036,432 |
| Equipment & Intangible Assets | | | | | |
| Equipment | | 7,603 | 7,550 | | 15,153 |
| Total | | 7,603 | 7,550 | | 15,153 |
| Total Expenditures & Transfers-Out | $ 481,788 | $ 4,278,563 | $ 518,356 | $ 1,308,154 | $ 6,586,861 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | |
| General Fund | $ 478,510 | $ 3,658,269 | $ 510,806 | $ 1,292,761 | $ 5,940,346 |
| State Special Revenue Fund | 3,278 | 470,136 | 7,550 | | 480,964 |
| Federal Special Revenue Fund | | 150,158 | | 15,393 | 165,551 |
| Total Expenditures & Transfers-Out | 481,788 | 4,278,563 | 518,356 | 1,308,154 | 6,586,861 |
| Less: Nonbudgeted Expenditures & Transfers-Out | | 70,311 | | | 70,311 |
| Prior Year Expenditures & Transfers-Out Adjustments | (8,232) | 8,232 | | 77 | 77 |
| Actual Budgeted Expenditures & Transfers-Out | 490,020 | 4,200,020 | 518,356 | 1,308,077 | 6,516,473 |
| Budget Authority | 511,018 | 4,245,588 | 542,796 | 1,317,302 | 6,616,704 |
| Unspent Budget Authority | $ 20,998 | $ 45,568 | $ 24,440 | $ 9,225 | $ 100,231 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | |
| General Fund | $ 20,525 | $ 24,436 | $ 24,440 | $ 5,458 | $ 74,859 |
| State Special Revenue Fund | 473 | 21,132 | | | 21,605 |
| Federal Special Revenue Fund | | | | 3,767 | 3,767 |
| Unspent Budget Authority | $ 20,998 | $ 45,568 | $ 24,440 | $ 9,225 | $ 100,231 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | ADMINISTRATION PROGRAM | EDUCATION | GENERAL SERVICES | STUDENT SERVICES | TOTAL |
|---|---|---|---|---|---|
| Personal Services | | | | | |
| Salaries | $ 258,815 | $ 2,765,448 | $ 111,686 | $ 767,077 | $ 3,903,026 |
| Employee Benefits | 78,276 | 993,941 | 52,578 | 375,297 | 1,500,092 |
| Total | 337,091 | 3,759,389 | 164,264 | 1,142,374 | 5,403,118 |
| Operating Expenses | | | | | |
| Other Services | 91,808 | 24,602 | 42,953 | 4,499 | 163,862 |
| Supplies & Materials | 1,578 | 92,244 | 38,408 | 67,281 | 199,511 |
| Communications | 43,368 | 39,015 | 659 | 2,959 | 86,001 |
| Travel | 4,575 | 57,903 | 12 | 56,705 | 119,195 |
| Rent | 835 | 95,641 | 1,200 | 5,451 | 103,127 |
| Utilities | | | 198,338 | | 198,338 |
| Repair & Maintenance | | | 113,655 | | 113,655 |
| Other Expenses | 4,141 | 72,661 | 8,615 | 760 | 86,177 |
| Total | 146,305 | 382,066 | 403,840 | 137,655 | 1,069,866 |
| Equipment & Intangible Assets | | | | | |
| Equipment | | 21,989 | 7,232 | 5,941 | 35,162 |
| Total | | 21,989 | 7,232 | 5,941 | 35,162 |
| Capital Outlay | | | | | |
| Buildings | | 66,855 | 4,212 | | 71,067 |
| Total | | 66,855 | 4,212 | | 71,067 |
| Total Expenditures & Transfers-Out | $ 483,396 | $ 4,230,299 | $ 579,548 | $ 1,285,970 | $ 6,579,213 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | |
| General Fund | $ 481,236 | $ 3,667,637 | $ 572,316 | $ 1,268,948 | $ 5,990,137 |
| State Special Revenue Fund | 2,160 | 417,259 | 7,232 | | 426,651 |
| Federal Special Revenue Fund | | 145,403 | | 17,022 | 162,425 |
| Total Expenditures & Transfers-Out | 483,396 | 4,230,299 | 579,548 | 1,285,970 | 6,579,213 |
| Less: Nonbudgeted Expenditures & Transfers-Out | | 94,879 | | (3,287) | 91,592 |
| Prior Year Expenditures & Transfers-Out Adjustments | | 171 | (550) | | (378) |
| Actual Budgeted Expenditures & Transfers-Out | 483,396 | 4,135,249 | 580,098 | 1,289,257 | 6,488,000 |
| Budget Authority | 485,243 | 4,221,654 | 597,238 | 1,339,575 | 6,643,710 |
| Unspent Budget Authority | $ 1,847 | $ 86,405 | $ 17,140 | $ 50,318 | $ 155,710 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | |
| General Fund | $ 1,847 | $ 26,717 | $ 14,890 | $ 23,826 | $ 67,281 |
| State Special Revenue Fund | | 56,574 | 2,250 | 16,327 | 75,151 |
| Federal Special Revenue Fund | | 3,114 | | 10,165 | 13,278 |
| Unspent Budget Authority | $ 1,847 | $ 86,405 | $ 17,140 | $ 50,318 | $ 155,710 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

# Montana School for the Deaf and Blind
## Notes to the Financial Schedules
## For the Two Fiscal Years Ended June 30, 2010

## 1. Summary of Significant Accounting Policies

### Basis of Accounting

The Montana School for the Deaf and Blind (school) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue) In applying the modified accrual basis, the school records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the school incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the school to record the cost of employees' annual and sick leave when used or paid.

The school uses accrual basis accounting for its Fiduciary (Agency) fund category. Under the accrual basis, as defined by state accounting policy, the school records additions and reductions to property held in trust for others.

Expenditures and expenses may include: entire budgeted service contracts even though the school receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. The school uses the following funds:

#### Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. School State Special Revenue Funds include School Trust Interest/ Income Fund and Donations to the School for the Deaf and Blind Fund.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. School Federal Special Revenue Funds include U.S. Department of Education and U.S. Department of Agriculture grants.

### Fiduciary Fund Category

- **Agency Fund** – to account for resources held by the state in a custodial capacity. The school agency fund includes student account money.

## 2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The school has authority to pay obligations from the statewide General Fund within its appropriation limits. The school expends cash or other assets from the statewide fund when it pays General Fund obligations. The school's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2009, and June 30, 2010.

## 3. Direct Entries to Fund Balance

Direct entries to fund balances in the General Fund include entries generated by the SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

## 4. Foundation

A foundation was created by the Montana Board of Public Education and incorporated under §20-8-111, MCA. The responsibility of the foundation is to receive, hold, manage, use, and dispose of real and personal property given to the school, the board, or state of Montana on behalf of the school, by purchase, gift, devise, bequest, or as otherwise acquired. The proceeds, interest, and income thereof are to be used for the benefit of the school. The foundation activity is not reflected on the accompanying financial schedules except for $66,856 reported as a Capital Contribution in the State Special Revenue Fund on the fiscal year 2008-09 Schedule of Revenues & Transfers-In and $66,856 reported as a Capital Outlay for Buildings in the Education Program on the fiscal year 2008-09 Schedule of Total Expenditures & Transfers-Out. The foundation's audited financial statements report expenditures of $265,779 and $149,898 in support of the school during fiscal years 2008-09 and 2009-10 respectively.

## 5. Agency Fund – Additions & Reductions to Property Held in Trust

The Agency Fund is used to record the student accounts maintained by the school for the resident students. The total Additions and Reductions to Property Held in Trust on the Schedule of Changes in Fund Balance & Property Held in Trust reflect the cumulative totals of transactions posted to the Agency fund. In fiscal year 2008-09, the total additions of $146,268 and total reductions of $144,389 include several correcting

transactions. For fiscal year 2008-09, the actual Additions to Property Held in Trust was $49,333 and the actual Reductions to Property Held in Trust was $47,471.

## 6. Capital Contribution

The $66,856 recorded as a Capital Contribution in the State Special Revenue Fund on the fiscal year 2008-09 Schedule of Revenues & Transfer-In is a donation from the Montana School for the Deaf and Blind Foundation for the purpose of funding two construction projects for the school.

## 7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

The Montana School for the Deaf and Blind received federal funding from ARRA totaling approximately $7,858. Included in this amount are two special education grants of $7,503 and $355, respectively. These grants were received and expended by June 30, 2010.

# Montana School for the Deaf and Blind

## School Response

Montana SCHOOL *for the* Deaf & Blind

*giving kids the building blocks to independence*

3911 Central Avenue
Great Falls, Montana 59405
406.771.6000 V/TTY
406.771.6164 FAX
www.msdb.mt.gov

September 8, 2010

RECEIVED
SEP 09 2010
LEGISLATIVE AUDIT DIV.

Tori Hunthausen
Legislative Auditor
Room 160 State Capitol Building
PO Box 201705
Helena, MT 59620-1705

Re: Agency response to financial compliance audit recommendations

Dear Ms Hunthausen,

Listed below is the schools' response to the audit recommendations contained in the financial-compliance audit report for the two fiscal years ended June 30, 2010.

**Recommendation #1**

We recommend the school:

A. Account for donations from the foundation and related expenditures in accordance with state law and accounting policy.
B. Comply with the purchasing requirements defined in the Procurement Delegation Agreement with the Department of Administration.

**Response:** Concur with (A) and (B)

The school will comply with state law and accounting policy when recording donations from the foundation and related expenditures. The school contacted the Department of Administration, Accounting Division prior to recording donations and related expenditures, but due to a misunderstanding on the schools' part the error occurred.

The school will comply with the Procurement Delegation Agreement with the Department of Administration. The capital improvements were funded from donations, and at the time we thought the transactions in question were exempt from state procurement regulations as the foundation is exempt. However, we concur with the auditor's findings that certain elements of these transactions would require following state procurement regulations.

**Recommendation #2**

We recommend the school implement controls over the Universal Service Administrative Company (USAC) contract to ensure terms are met and the appropriate accounting transactions are recorded.

**Response:** Concur

The school has implemented controls to insure ITSD is crediting the school for payments ITSD receives from the Universal Service Administrative Company. Additionally, the school will ensure appropriate accounting transactions are recorded.

**Recommendation #3**

We recommend the school record Medicaid reimbursements on the accounting records in compliance with the state statute.

**Response:** Concur

The school will work with the Governor's Budget Office and the Department of Administration to create a new fund to record Medicaid reimbursements and related expenditures.

We wish to express our appreciation to your staff, David Brammer and Vickie Rauser, for their professionalism and their approach in conducting the schools' audit. Mr. Brammer and Ms Rauser were a pleasure to work with.

Sincerely,

Steve Gettel, Superintendent